

# GREYCOURT Capital Market Flash Report

**September 2018** US stocks continued their bull push, substantially outperforming non-US stocks for the year. This outperformance was bolstered by strong 2Q growth and by employment, household wealth, and business and consumer confidence at secular highs. Trade tensions negatively impacted Chinese stock markets as well as input providers to Chinese manufacturing, while rising US rates, a strong US dollar, and tightening global liquidity stressed global markets. Stellar late-cycle business conditions in the US likely aren't sustainable.

## US EQUITY

Large cap stocks advanced once again, with growth stocks outpacing value stocks. Investors focused on strong growth, positive economic conditions, and robust corporate profits. The performance of financials, however, sent a flashing yellow signal to markets as interest rates increased and the yield curve flattened. Small cap stocks lost ground this month as declining earnings, leverage ratios near all-time highs, and substantial floating rate debt helped reverse exceptional year-to-date momentum.

	Month (%)	YTD (%)
S&P 500	0.6	10.6
Russell 1000	0.4	10.5
Russell 1000 Value	0.2	3.9
Russell 1000 Growth	0.6	17.1
Russell 2000	-2.4	11.5
Russell 2000 Value	-2.5	7.1
Russell 2000 Growth	-2.3	15.8

## CURRENCIES

Markets were roiled by Italian politics, balance of payments issues in Turkey, and Brexit. The US dollar ended flat as did the euro, supported by ECB President Draghi's comments that inflation would subsequently rise. The yen fell because of continuing easy monetary policy and a reduced level of fear regarding emerging markets. The Chinese renminbi depreciated further, offsetting some of the negative tariff impact on exports to the US. Emerging markets currencies generally rebounded as the US dollar did not strengthen.

	Month (%)	YTD (%)
US Dollar	0.0	3.3
Euro	0.0	-3.3
Yen	-2.3	-0.9
Emerging Markets <sup>1</sup>	0.6	-4.5

## NON-US EQUITY

With the Nikkei Index testing a 27-year high, non-US developed stocks outperformed US stocks. Surging corporate profits, solid economic growth, and ultra-easy monetary policy boosted Japanese stocks by 5.7% on a local currency basis. Europe also welcomed resurgent M&A activity with the \$40b takeover of Sky by Comcast. Developing economies got some relief from the US dollar but continued to suffer from trade tensions and rising interest rates on US dollar-denominated debt.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	0.5	-2.7
MSCI EAFE	0.9	-1.0
MSCI Europe	0.4	-1.9
MSCI Japan	3.2	1.9
MSCI Emerging Markets	-0.5	-7.4
MSCI BRIC Index	-1.1	-8.4

## REAL ASSETS

Improving sentiment, constrained supply, and dwindling stockpiles boosted commodity returns. Energy led with Brent Crude hitting its highest level in four years as OPEC and Iran instituted cuts. Industrial metals followed, particularly copper, surging 5% on easing US-China trade tensions. Gold continued to suffer against the US dollar. MLPs did not benefit from improving oil prices, even as midstream energy remains discounted to other yield-based assets. REITs were hit by rising interest rates.

	Month (%)	YTD (%)
Commodities <sup>2</sup>	1.9	-2.0
Energy	5.2	17.6
Industrial Metals	2.2	-11.8
Gold	-0.7	-9.4
Master Limited Partnerships <sup>3</sup>	-1.6	5.9
Real Estate Investment Trusts <sup>4</sup>	-2.5	1.8

## FIXED INCOME

With the notable exception of high yield bonds, fixed income markets lost ground as the Fed continued to raise the Fed Funds rate and other interest rates increased. Long-dated US Treasuries led the decline, with 10- and 30-Year yields climbing to 3.05% and 3.19% respectively. High yield bonds benefitted from strong growth and tax-related earnings increases that mitigated default fears and the impact of rising rates. In non-US markets, investors continued to pay attention to Italy and emerging markets debt.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.5	-0.8
U.S. Long Treasuries	-3.0	-5.8
U.S. TIPS	-1.1	-0.8
Corporate IG Bonds	-0.6	-4.0
High-Yield Bonds	0.6	2.6
Tax-Exempt Bonds	-0.6	-0.4

## HEDGE STRATEGIES

Results across hedge fund strategies were mostly down for the month. Equity Hedge and Macro strategies fell on exposure to emerging markets, sector biases including financials and short positions against growth, as well as US dollar losses in trades against the euro, British pound, and Swiss franc. Event Driven and Relative Value strategies were supported by special situation positioning to Obsidian Energy, Marriot, and Fiat Chrysler, and some gains from mortgage-backed securities and global credit.

	Month (%)	YTD (%)
Equity Hedge	-1.6	-0.9
Equity Market Neutral	-1.0	-0.6
Event Driven	-0.3	-5.4
Distressed	0.1	-5.7
Macro	-1.3	-1.8